



APPROVED on 08-31-10

**CITY OF SCOTTSDALE
AUDIT COMMITTEE**

**REGULAR MEETING MINUTES
MONDAY, JUNE 21, 2010**

**CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251**

PRESENT: Councilman Robert Littlefield, Chair
Councilwoman Lisa Borowsky
Vice-Mayor Suzanne Klapp

STAFF: Brad Bishop, Community Services
Jan Cameron, Community Services
Terry Erickson, Community Services
Bill Murphy, Community Services
Jeff Nichols, Finance & Accounting
Bernadette LaMazza, Human Resources
Velicia McMillan, Human Resources
Ken Nemec, Human Resources
La Verne Parker Diggs, Human Resources
Tim LaSota, Mayor's Office
David Ellison, Assistant City Manager
David Richert, City Manager
David Smith, City Treasurer
Joyce Gilbride, City Auditor's Office
Lisa Gurtler, City Auditor's Office
Joanna Munar, City Auditor's Office
Lee Pettit, City Auditor's Office
Sharron Walker, City Auditor's Office

OTHERS: Beth Duckett, Scottsdale Republic
Barry Shanahan

CALL TO ORDER

Chair Littlefield called the meeting to order at 4:06 p.m. Committee Member Borowsky was not yet present.

1. Approval of Minutes: - Regular Meeting, May 14, 2010, Special Meetings, May 13, and 14, 2010

Vice Mayor Klapp moved to approve the minutes of the May 14, 2010 regular meeting and the special meetings of May 13, and 14, 2010. Seconded by Chairman Littlefield, the motion carried unanimously with a vote of two (2) to zero (0). Committee Member Borowsky was not yet present.

2. Discussion and possible direction to staff regarding the pool usage audit

Mr. Lee Pettit said this audit evaluated the effectiveness of City pool usage, including use agreements for aquatic facilities. The Community Service Division Parks and Recreation Department oversees the aquatics program, which he outlined. Community Services management has identified the need to require a level of cost recovery for aquatic activities and is currently working to update pool use and sponsored group agreements. The audit identified the following areas for improvement:

- Community Services currently recovers about 21% of aquatics program costs and has not yet developed a cost recovery standard for all aquatic programs.
- Heating costs related to wintertime use of Chaparral Pool have not been billed to the Scottsdale Unified School District (SUSD) as provided in the IGA. These costs total approximately \$14,300 for FY 2008/09 and FY 2009/10.
- A private high school was billed at a reduced rate rather than at the commercial rate for City pool use. This resulted in the City receiving approximately \$11,600 less per year since 2005.
- A Cave Creek Unified School District high school qualifies for a reduced fee of approximately \$3,100, but has instead received free use of a City pool for its swim team since 1997.
- At the time of the audit, monthly billings had not gone out for the adult Masters Swim Program since June 30, 2009, equaling more than \$2,500 in past due fees.
- The calendar 2009 sponsored group agreements were not properly executed; the 2010 agreements were.
- Community Services contract files did not contain needed sponsored group documentation.

Vice Mayor Klapp asked what use Community Services makes of SUSD school cafeterias. Ms. Terry Erickson, Parks and Recreation Manager said this is mostly for the youth summer recreation programs. The Department also uses school gyms for adult sport programs.

Chairman Littlefield noted the arrival of Committee Member Borowsky.

Chairman Littlefield asked why the recovery rate had not been set sooner. City Auditor Sharron Walker said that in previous years, Financial Services staff may not have emphasized the cost recovery percentages. In the past year, Community Services has undergone a number of staffing changes and is now reviewing all the agreements. The Auditors recommend that staff complete that process and report to Council on the recommended recovery rates for all programs. Chairman Littlefield commented that the target recovery rate is a policy question.

Vice Mayor Klapp inquired whether it would be possible to collect the past due unbilled fees. Ms. Jan Cameron said that the unbilled fees from the adult Masters Swim Program identified during the audit have now all been collected. Staff will ensure that billing is done monthly from now on. However, Cave Creek High School and Notre Dame Preparatory High School were charged at the wrong rate. Staff has met with the Notre Dame business officer and athletic director; Ms. Erickson has spoken with Cave Creek School District to advise them what to expect to pay going forward. Both schools are up to date based on what they had been billed.

Chairman Littlefield asked why the adult Masters Swim Program was not billed. Ms. Erickson said the original RFP basically charges the Program according to the dues that they collect. The Department does not have that information and depends on them to tell us. The RFP will be reissued this fall and will be revised to make for simpler, more straightforward billing by the City.

3. Discussion and possible direction to staff regarding Audit Report No. 1014, Retirement Incentive Program and Reorganization

Ms. Walker said in January 2010, the Audit Committee approved the audit of the Retirement Incentive Program and Reorganization and related initiatives as an amendment to the Council adopted FY 2009/10 Audit Plan. In January 2009, the former City Manager obtained Council approval of the Retirement Incentive Program designed to help the City's budget deficit. In addition, he highlighted certain staff-related actions.

The audit found that actual costs for the Retirement Incentive Program and the other initiatives exceeded the estimated costs by more than \$580,000, largely due to salary increases that happened after the reorganization. However, primarily due to the salaries and benefits of laid off employees not being factored in, the savings from the initiatives were, in fact, \$3.8 million more than had been projected. The auditors also noted that the structural payroll savings from the retirees and laid-off employees totaled about \$13 million, which can carry forward into future years, unless those positions are replaced or salaries are increased.

Additionally, the audit found that management did not advise City Council of an available option to pay the retirement incentive after the employee's retirement date. That action might have reduced the City's \$5.2 million invoice from the Arizona State Retirement System (ASRS).

The salaries of more than 60 program participants who remained on the payroll were excluded from the two percent across the board pay reduction that was effective July 5, 2009. As a result, the City paid more than \$64,000 in additional salary, vacation, and medical payouts. While the audit report estimated \$62,000, the additional amount was identified while closing out the audit files.

The decision to round up and include prior service years in the incentive payment calculations was not disclosed to City Council. This resulted in 83 weeks of additional pay totaling almost \$115,000. Program provisions were not followed consistently. The auditors found 12 calculation errors, of which only half were corrected. The six overpayments totaled about \$9,500.

The audit looked at salary actions since the incentive program and reorganization. Most significantly, 161 employees have received salary adjustments with an annualized cost of over \$820,000, including several retroactive increases. Auditors found that 19 employees' salaries exceed their maximum salary range. The excess amounts total almost \$125,000. Nineteen vacant positions were eliminated to offset some of the retiree positions that were refilled. Some of those positions had been vacant for more than a year.

Chairman Littlefield said since it is unlikely that the City will face a similar situation any time soon, it is more important to focus on fixing what happened. It is clear that too much money was paid out, and he noted that the City Attorney is looking into this report. He invited David Smith, City Treasurer, to share his thoughts. Mr. Smith concurred that this is a one-time event. Used correctly, this is a program which might be very effective in reducing the first level of management from the organization, which cannot be done in a normal layoff. This program saved the City some money this year and might save money next year. The troubling issues are the features of the program that were not fully disclosed to Council up front. Should there ever be a similar program, the City Treasurer should look at the proposed program and give Council an independent financial assessment.

David Smith further noted that the City is in discussions with the ASRS about the invoice we received. The original estimate last year was \$4.9 million. The invoice received is at \$5.2 million and the only supporting documentation is the enumeration of the hundred or so participants in the program and the individual cost for each one. The Accounting Director, Jeff Nichols, and his staff have reviewed the calculation name by name. The only way they can come close to the ASRS invoice total is to include the retirement incentive, the vacation payment (which should not be included) and the income portion of the medical payment. Staff believes the invoice should be \$2.8 to \$3 million and have requested supporting information from the ASRS.

Vice Mayor Klapp inquired how receptive the ASRS is to the City. Mr. Smith said they are not terribly forthcoming. Staff explained that they needed the information requested by June 1 in order to make payment by the July 5 due date. The ASRS staff promised to do their best, then later advised that some key staff members are on vacation. The State actuaries are also apparently having difficulty finding the information. Vice Mayor Klapp suggested requesting extra time to pay, since the delay is caused by the ASRS, to avoid any penalties for late payment. Mr. Smith said a letter to that effect has been prepared but staff will not send it until after tomorrow evening's Council meeting. Mr. Nichols said a meeting with ASRS staff is scheduled for Thursday, to discuss what materials they will provide.

Mr. David Richert, City Manager, said there are 158 people who could retire right now. That would potentially provide \$13 to \$15 million in savings. He suggested that a Council subcommittee should decide how to proceed next time around, which would eliminate

potential conflicts of interest. When the program was being set up, no one foresaw all the consequences and the thought behind the program was to persuade people to retire. The savings going forward will provide benefits, even factoring in the payouts needed to achieve those savings. The City can look at consolidating positions, using technology, and being more efficient and transparent. Mr. Richert said there should be a cap on payouts. He pointed out that the City had never done anything like this before, so very few people had any previous experience. There is plenty of time to make plans for FY 2011/12 and make sure they are ironclad, and meet the City's needs. He concluded by noting that a total of 500 more people could retire in the next five years. The employees with the most experience will leave, taking their knowledge with them.

Chairman Littlefield noted that Mr. Richert was not the City Manager when this program was instituted.

Mr. Smith commented that a program like this only pays benefits if the people who retire are not replaced. That is the real challenge.

4. Discussion and possible direction to staff regarding FY 2009/10 Annual Report on Audit Follow-Ups

Ms. Walker noted that this is a summary of quarterly reports previously provided. She pointed out that the final page of this report has a link to a separate report with the detailed status of all the audit recommendations. This was done so the report could be reviewed with or without the additional 80-plus pages of detail.

5. Discussion and direction regarding the final status of FY2009/10 Audit Plan and proposed FY 2010/11 Audit Plan

Ms. Walker said staff is writing the report for the Special Event/Off-Duty Coordination audit. Although the status report indicates this audit report will be given in July, a meeting is not being scheduled for July. The Taxpayer Problem Resolution Officer (TPRO) report is the routine quarterly report. The contract for the Energy Billings audit has just been awarded. As page 2 shows, approximately 94 percent of planned audits were completed this year.

Ms. Walker presented the proposed plan for FY 2010/11. The plan is scheduled for Council review and approval on the July 6 meeting agenda. Ms. Walker drew the Committee's attention specifically to the audit of the Benefit Plans: Claim Processing. In the past, this audit has been contracted out and managed by the Benefits area, but it would be preferable to handle this through the Auditor's Office. She reminded them that if this item stays on the approved audit plan, she will need approval to charge the audit contract cost to the self-insured benefit fund. In the past, the cost was approximately \$50,000. The last audit was conducted in 2008, the one before that was in 2006.

Mr. Smith explained that the self-insured fund is operated as a separate business, so it is not inappropriate for the fund to pay for its own audit. The Committee members agreed that the audit of the Benefit Plans: Claims Processing should be funded by the self-insured plan and contracted through the Auditor's Office. The Committee also approved the proposed audit plan to go forward to Council.

6. Discussion of agenda items for next Audit Committee meeting

Ms. Walker said that the Special Event/Off-Duty Coordination audit will be presented, as will the quarterly report of the Taxpayer Problem Resolution Officer. This may be a fairly brief meeting, although possibly one more audit can be completed by the August meeting.

Vice Mayor Klapp said she has tentative vacation plans for August 16. She inquired whether the next Audit Committee meeting could be moved to the day of the first Council meeting after the recess. After discussion, the Committee agreed to meet at 3:30 p.m. on Monday, August 30.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at 4:45 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.